Chapter 5: Elder Issues

This chapter addresses tax and other issues likely to apply to clients who are age 65 or older. It includes content related to health insurance and deductible medical expenses, long-term care issues, medical care at home, and financial and tax matters associated with retirement income.

MEDICARE COVERAGE

Beginning January 1, 2014, individuals who do not obtain health insurance through a current or former employer must obtain minimum essential coverage (MEC) through another source or face penalties under the Affordable Care Act (ACA). Generally, in order for health insurance to qualify as MEC, it must provide a relatively broad level of health insurance coverage.

Medicare qualifies as MEC.\(^1\) Medicare provides primary health insurance coverage to the vast majority of the U.S. population age 65 and older, as well as to some individuals who are disabled or have end-stage renal disease.\(^2\)

Medicare consists of the following parts.

- Part A provides in-patient hospital insurance, short-term nursing home coverage under limited circumstances, some home health care coverage, and hospice care.
- Part B provides insurance coverage for services by health care professionals (including doctors), medical equipment, outpatient medical care, some home health care, and a variety of other health-related services or items.
- Part C (referred to as Medicare Advantage) provides private insurance alternatives to Parts A and B (often called traditional or original Medicare).
- Part D provides prescription drug coverage (through private insurers).

**Note.** Each year, the Centers for Medicare & Medicaid Services (CMS) publishes a *Medicare & You* handbook that provides a detailed overview of the Medicare program.\(^3\)

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2. 42 USC §1395c.
Although Medicare provides a wide range of coverage, it does not cover everything. As a result, those using Medicare may face significant out-of-pocket medical costs. It was estimated that a couple retiring at age 65 in 2013 will need approximately $220,000 throughout retirement to cover medical expenses not paid by Medicare.4 This estimate does not include long-term care costs, such as a nursing home.

PARTS A AND B

Most Medicare beneficiaries qualify for premium-free coverage under Medicare Part A as a result of paying Medicare taxes on wages or other compensation earned while working. Wages and other employment compensation are subject to a 2.9% Medicare tax, half of which is paid by the employee5 and the other half paid by the employer.6

<table>
<thead>
<tr>
<th>MAGI Range</th>
<th>Adjusted Monthly Premium Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than $85,000 but less than or equal to $107,000</td>
<td>$146.90</td>
</tr>
<tr>
<td>Greater than $107,000 but less than or equal to $160,000</td>
<td>209.80</td>
</tr>
<tr>
<td>Greater than $160,000 but less than or equal to $214,000</td>
<td>272.70</td>
</tr>
<tr>
<td>Greater than $214,000</td>
<td>335.70</td>
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Note. Beginning in 2013, higher-income taxpayers are subject to an additional 0.9% Medicare tax on wages and self-employment income above specified threshold amounts. For more information, see the 2014 University of Illinois Federal Tax Workbook, Volume A, Chapter 3: Affordable Care Act Update.

Unlike Medicare Part A, beneficiaries must pay a monthly premium if they enroll in Medicare Part B.7 The base premium amount is determined each year based on the Medicare program’s overall Part B costs.8 Beginning in 2007, individuals with incomes above a specified level are subject to higher adjusted Part B premiums.9 Although the base Part B premium for 2014 is $104.90, this monthly premium amount is adjusted upward for individuals with modified adjusted gross income (MAGI) greater than $85,000 ($170,000 for MFJ taxpayers).10

The relevant 2014 MAGI ranges and Part B adjusted premiums for single, head of household, and qualifying widow/widower (QW) filers are shown in the following table.11 These adjusted premium amounts also apply to married filing separately (MFS) taxpayers if the spouses have not lived together at all during the tax year.12

5. IRC §3101(b)(1).
6. IRC §3111(b)(6).
7. 42 USC §1395j.
8. 42 USC §1395r(a)(1).
9. 42 USC §1395r(i).
10. 42 USC §1395r(i)(3)(C); 20 CFR §418.1115.
11. Social Security Act §1839(i).
12. Ibid.
For married filing jointly (MFJ) taxpayers, the following MAGI ranges and adjusted premium amounts apply for 2014.13

<table>
<thead>
<tr>
<th>MAGI Range</th>
<th>Adjusted Monthly Premium Amount</th>
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</thead>
<tbody>
<tr>
<td>Greater than $170,000 but less than or equal to $214,000</td>
<td>$146.90</td>
</tr>
<tr>
<td>Greater than $214,000 but less than or equal to $320,000</td>
<td>209.80</td>
</tr>
<tr>
<td>Greater than $320,000 but less than or equal to $428,000</td>
<td>272.70</td>
</tr>
<tr>
<td>Greater than $428,000</td>
<td>335.70</td>
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</table>

For MFS taxpayers who lived together for part or all of the tax year, the relevant MAGI ranges are as follows.

<table>
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<th>MAGI Range</th>
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</thead>
<tbody>
<tr>
<td>Greater than $85,000 but less than or equal to $129,000</td>
<td>$272.70</td>
</tr>
<tr>
<td>Greater than $129,000</td>
<td>335.70</td>
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</tbody>
</table>

MAGI for purposes of these premium adjustments is generally calculated as follows.14

\[
\text{MAGI} = \text{AGI} + \text{U.S. savings bond interest excluded by a taxpayer with higher education expenses under IRC \$135} + \text{Other tax-exempt interest under the Code} + \text{Excludable amounts of foreign earned income or foreign housing costs under IRC \$911}
\]

Generally, Medicare calculates MAGI based on an enrollee’s tax return for the last taxable year beginning in the second calendar year preceding the year involved.15 Accordingly, in order to determine a taxpayer’s 2014 premiums, the taxpayer’s 2012 MAGI is taken into consideration. However, a beneficiary may request that the MAGI for a more recent tax year be used to determine whether the premium adjustment applies.16 Such a request may be made only in cases in which the individual’s MAGI for the more recent year is significantly less than the MAGI for the year that would otherwise be used due to a major life-changing event such as the following.17

- Death of the taxpayer’s spouse
- Marriage or divorce of the taxpayer
- A termination or reduction in the number of working hours for the individual or the individual’s spouse
- A loss of income-producing property by the individual or the individual’s spouse (as long as the loss is neither at the direction of the individual or spouse nor is a result of the ordinary risk of investment)
- A scheduled cessation, termination, or reorganization of an employer's pension plan
- Settlement for the individual or spouse from an employer or former employer because of the employer's closure, bankruptcy, or reorganization

13 Ibid.
14 42 USC §1395r(i)(4)(A).
15 42 USC §1395r(i)(4)(B)(i).
16 42 USC §1395r(i)(4)(C).
17 42 USC §1395r(i)(4)(C)(ii); and 20 CFR §418.1205.